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Relation of
PUBLIC OWNERSHIP
To
DEMOCRACY AND SOCIAL JUSTICE

By

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"I hope we shall take warning from the example of England and crush in its birth the aristocracy of our moneyed corporations which dare already to challenge our Government to trial, and bid defiance to the laws of our country."—*Thomas Jefferson* in 1816.

"This country and all that is within it belongs to the people who inhabit it."—*Abraham Lincoln*.

"Every measure must be tested by this question only: Is it just? Is it for the benefit of the average man, without influence or privilege? Does it embody the highest conception of social justice, without respect to person or class or particular interest?"
—*Woodrow Wilson*.

"Real public ownership is the essence of democracy. Instead of dividing men into masters and mastered, it brings men together in a union of interest, and affords the conditions necessary for the highest traits of conscience and character."—*Prof. Frank Parsons of the Boston Law School*, in "*The City for the People*."

"In its search for truth the commission had to overcome many obstacles, such as the burning of books, letters, and documents and the obstinacy of witnesses who declined to testify until criminal proceedings were begun for their refusal to answer questions. The New Haven Railroad system has more than 300 subsidiary corporations in a web of entangling alliances with each other, many of which are seemingly planned, created, and manipulated by lawyers expressly retained for the purpose of concealment of deception."—*U. S. Interstate Commerce Commission*, July 11, 1914.

RELATION OF PUBLIC OWNERSHIP TO DEMOCRACY AND SOCIAL JUSTICE.

ALBERT M. TODD

President Public Ownership League of America

Democracy is the foundation of all free and just governments. It includes every civic principle which is the basis of liberty, equality of opportunity, and human happiness. It involves so many phases of human welfare that all cannot be included in this discussion. And since this meeting is considering as its special subject, legislation relative to public utilities, especially the railroads, chief attention must be given to this branch of economic democracy. But before concentrating attention upon this branch of the subject, I desire to call attention to our first great present duty which is to remove from their places of power the forces of "special privilege" which have gained control of those functions of government upon which our economic liberty and prosperity depend so that we may become a nation free in fact as well as in name.

The problems which we now face are so akin to those which confronted President Lincoln fifty-six years ago near the close of that war which forever settled the question of human slavery in this country, that I cannot do otherwise than recall those immortal words on the field of Gettysburg in which he challenged America to accept her present duty in the perpetuation of freedom:

"It is for us, the living, to be dedicated to the unfinished work which they who fought here have thus far so nobly advanced. It is for us to be here dedicated to the great task remaining before us—that from these honored dead we take increased devotion to that cause for which they gave the last full measure of devotion; that we here highly resolve that these dead shall not have died in vain; that this nation, under God, shall have a new birth of freedom; that government of the people, by the people, for the people, shall not perish from the earth."

Not only when speaking on a great battlefield, but also, in addressing a personal friend by letter, this same great President, whose memory we all reverence and cherish, made another utterance equally related to the conditions we face today, saying:

“As a result of the war, corporations have been enthroned, and an era of corruption in high places will follow, and the money power of the country will endeavor to prolong its reign by working upon the prejudices of the people until all wealth is aggregated in a few hands, and the republic is destroyed. I feel at this moment more anxiety for the safety of my country than ever before, even in the midst of war. God grant that my suspicions may prove groundless.”

Is there a single American who has carefully studied the growth of the power of those corporations which control our great public utilities, who does not realize that the prophecy of our martyred President has already become largely true?

What really is the republic which the great President feared would be destroyed by the concentration of wealth?

A republic is the citizenship who compose it and who have organized a government, as their agency to operate the mechanism of democracy. Though the government continues to exist in its original form, if it becomes corrupted, and is operated in the interest of a class rather than in the interest of all, the republic is destroyed. There are many thoughtful and genuinely patriotic citizens who are forced to the conclusion that the railroad power, the money power, and the other forces of special privilege which have been born from these two, are now in control of the government, and that the real republic is rapidly moving towards destruction.

In view of the fact that special privilege not only denounces those who advocate force but also classes as “un-American” those American citizens who desire to secure democracy peacefully, I wish to call the attention of the forces of monopoly to the fact that it is they themselves who are sowing the seeds of anarchy. Should our country be drawn into a revolution of force, which God grant may not be the case, those who are seeking through corrupt and illegal means to gain economic control of the nation, will be found to be the chief contributing cause. If, instead of increasing their unjust, political and financial con-

trol, they will join the real friends of progress who seek to promote universal justice, the terrible calamity may be averted. In connection with this, and in order that they may cease from their attacks upon democracy, I quote again from the martyred Lincoln whom they profess to reverence, who said:

"This country and all that is within it belongs to the people who inhabit it, and whenever they shall tire of the existing form of government, they have the constitutional right to amend it, or the revolutionary right to overthrow it."

I have quoted more fully from President Lincoln than would otherwise seem necessary, were it not that these warnings were evoked by conditions which already he feared and clearly foresaw, and which since he made these appeals, have verified his fears. His prophecy already has been in part fulfilled, because special privilege has been permitted to secure the control of our great public functions. To restore Democracy, by nationalizing our great public utilities in the interest of the public good, is the great work now before us.

Similar warnings were sounded 103 years ago by Thomas Jefferson, the illustrious author of the *Declaration of Independence*, when, in a letter to George Logan, he wrote:

"I hope we shall take warning from the example of England and crush in its birth the aristocracy of our moneyed corporations which dare already to challenge our Government to trial, and bid defiance to the laws of our country."

Public Ownership and Democracy

"Real public ownership is the essence of democracy. Instead of dividing men into masters and mastered, it brings men together in a union of interest, and affords the conditions necessary for the highest traits of conscience and character."

—Prof. Frank Parsons of the Boston Law School, in "*The City for the People*."

A highly important element, and probably the first element of democracy, is the ownership by the people, and the administration by their government of all those great public services necessary for the general welfare, and especially those which either by nature or by law are monopolies. There can be no more natural and just function of government than the public ownership and operation of those utilities and services which are of uni-

versal need for promoting general prosperity and happiness. Among those services are the transportation of our persons, our food, fuel and the various necessities of life both from farms and factories; the transmission of intelligence by telephone, telegraph, post or by any other method which human genius may in the future devise; the ownership and operation by municipalities, of street railways, gas, electricity and such other services as the citizens of any city may deem best publicly to operate.

The principles underlying democracy and public ownership may be divided into two classes. One is connected with ideal government in its relation to civil liberty and equality of opportunity. This we call "democracy," and "political justice." The other relates to providing those material things and services necessary to our welfare and happiness which we call "economic justice." Both are closely interwoven, and together form the sum of human justice which we know as "social justice," a term inclusive of all the relations of mankind in an ideal commonwealth.

Liberty and equality are essential principles of justice or "democracy" in its widest sense, as determined by social inheritance; but to analyze social relations correctly, a broad comprehension of economic conditions is necessary. It was the desire to study questions of justice and civil liberty which led me many years ago to seek information concerning the great public utilities and their relation to national life and public welfare.

Constant and intimate relations for a number of years with the railway, telegraph, telephone, express and various other public utilities had brought valuable experiences in my business relations as manufacturer and shipper. Investigations carried on while a member of Congress added to this experience facts of an official nature. Repeated visits abroad gave opportunity to investigate personally the conditions under which public utilities were being operated in foreign lands under both public and private ownership. The last visit occupied fourteen months in the year 1912-13, during which time fourteen countries were visited. These, together with those investigated during other trips, included Austria, Bavaria, Belgium, Denmark, Egypt, England, France, Greece, Holland, Italy, Norway, Prussia, Saxony, Scotland, Sweden, and Switzerland.

Rapid Spread of Public Ownership Abroad

All of these countries, sixteen in number, publicly own and operate their telephone and telegraph systems as parts of the postal service. Ten publicly own and operate their entire railway systems, four own them in part, while only two (England and Scotland) have been operating their railroads entirely under private ownership. Upon the outbreak of the war, the government of these two countries took possession of the railroads also, and will assume actual and permanent government ownership in the near future. Russia, Japan, Australia, and New Zealand also publicly own and operate their entire railroad systems, while China, Mexico, and the countries of South America own theirs in whole or in part. All of these own their telephone and telegraph systems as well, and many countries own the majority of their municipal utilities. *The United States of America is the only nation in the world which does not publicly own and operate its telephone and telegraph systems as government functions*, and will have the unenviable distinction of being the only civilized country controlled by special privilege, should she alone decide to continue this intolerable system of "invisible government."

This tendency to be ruled by private monopoly led Ambassador Bryce in his American Commonwealth to declare: "In England we have the form of monarchy with the spirit of democracy; while in America there exists the form of democracy with the spirit and essence of monarchy." This statement is unfortunately too true, due to the fact that in England as well as in all the other countries of Europe, public utilities are largely owned and operated by the people, their operation being considered necessary and natural governmental functions. Those few minor undertakings which are allowed to be privately owned in these countries are considered as public trusts which are required to give impartial service and make full accounting to the people respecting their stewardship.

Public Ownership a Natural Government Function and Necessary to Secure Democracy and Justice

In America, on the other hand, the private monopolies which own and control the great public utilities have practically become the financial and political masters of the people, for, by means of unjust rates made possible by fictitious capitalization, dishonest

financing, and illegal practices, they have grown so powerful as largely to control law and government. By secret rates and rebates they crushed out competition and obtained monopoly. By interlocking directorates and combination of capital they have controlled or defied law and evaded regulation. Through control of much of the press and other means of public education they have influenced public opinion, largely controlling nominations and elections to public office, and ultimately directing the making and administration of law.

When a few men thus control the great functions of government, that equality of opportunity which is fundamental to democracy can not exist. There can be no function of government more natural and necessary to the promotion of general prosperity and happiness than the public ownership and operation of all those agencies which contribute to the public good and which by their nature are monopolies; and these include not only the public utilities devised by man, but many of those vast resources of nature which the Almighty placed upon and below the earth for the service of all his creatures.

Since our National Constitution was written a century and a quarter ago, human genius has harnessed nearly all the forces of nature in so many ways, that there is scarcely a function in our daily life that is not performed by them, nor a condition of life which they have not revolutionized. Then, we could speak only within the radius of our voices; now, we speak from ocean to ocean. Then courier, stage, or slow sailing boat carried our written messages; now, a few seconds suffice to encircle the globe. Then, our persons and the products of our farms and factories traveled on land at the rate of twenty miles a day; now, our fastest trains exceed a thousand.

As the Creator of the Universe gave to all mankind from the foundation of the world to the end of time, the air, the water the sunlight, the heat, the treasures of the earth with all their powers and possibilities, so it devolves upon the city, the State and the nation to preserve inviolate to its citizens the widest and freest use of these gifts for the common welfare. This cannot be done where private monopoly exists, which permits one man or a group of men to usurp the rights which belong to all.

"Liberty—Equality—Fraternity"

When first traveling in the countries of Europe in 1875 to study their social institutions as well as the masterpieces of art

and architecture, and the monuments of antiquity, I observed with interest over the entrances to public buildings and churches in France the words "LIBERTY, EQUALITY, FRATERNITY," the impressive motto of the French revolution, forced upon the world by the tyranny of existing autocracy; and when extending these travels to other countries it was interesting to observe the extent to which applied democracy was enjoyed by the people.

In order to secure indisputable evidence of the success of public ownership with which to disprove misstatements continually being made in the press, I procured during the travels referred to, a large and valuable collection of official reports and data of an absolutely authoritative nature, besides personally taking over five hundred photographs of the various utilities in operation in many countries. To this collection I added several hundred photographs taken by official photographers.

This interesting collection contains street railway tickets from many cities and countries of Europe, with fares of but one cent for moderate distances, and averaging approximately two cents for all distances. These gave superior service, from the receipts of which each city made a large profit applied for reducing taxation or swelling the fund of the "common good."

In England the very highest quality of coal gas was being supplied under municipal ownership, in some instances at rates as low as twenty-five cents per 1,000 cubic feet. And even at this rate a profit was made, owing to honest and efficient administration.

Electricity was everywhere supplied at rates lower than those charged by private companies in America, notwithstanding the fact that in most of these countries there is but little water power.

Local telephone calls were two cents, and phones in homes and office cost less than half the American rate.

Checking of baggage or parcels for storage at the railway stations was only two cents, as against ten cents in the United States. And all these public utilities were efficiently administered and gave a profit to the government. That these rates to the general public have not been established at the expense of the employees we demonstrate below.

Public Ownership Brings Justice to Labor

The rule prevailing in both municipal and national utilities in countries where public ownership exists, is that labor shall be

paid not less than the full wages accorded by private companies for like service, nor less than the amount fixed by labor unions. In many countries a minimum wage law exists for government employees upon the railroads, telegraph, telephone systems, etc., and this rule exists in principle under municipal ownership in nearly all cities.

Strikes and labor trouble of any kind are so extremely rare as to be almost unknown under public ownership, for the public has no interest nor desire to treat its own "citizen employees" otherwise than with generosity and justice. It desires to receive the best service and is glad to give a full equivalent. The sole consideration under public ownership is to secure to everyone perfect service under just conditions, while under private ownership as practiced in America the sole motive is to obtain private profit; and even where good service is given, the motive remains the same.

Under public ownership, laws and agreements are entered into providing for conciliation, arbitration, etc., by which all questions are usually settled quickly and amicably. Employees being partners in the business and enjoying the public service for themselves and their families have no motive to destroy that which tends to their own welfare. The facts already given would seem sufficient to show that a degree of social justice greater than is known elsewhere prevails where public ownership exists, for the public as consumers secure the necessities of life upon terms far more just than could be otherwise possible, while employees receive better wages and better treatment as well.

It is highly significant that the employees of our railways are unanimous for government ownership and willing to contribute to help make it a permanent success.

Public Ownership in Accord With Our Constitution

The greatest statesmen and constitutional lawyers of every democratic country agree in the view that it is not only the *right* but the *duty* of government—national, state, and municipal—to perform every function which is necessary to protect and extend the rights, opportunities, and happiness of its citizens. In fact, this was the supreme purpose of the founders of our Republic, and in order to secure and protect these rights they placed at the head of our National Constitution the following preamble:

"We, the people of the United States, in order to form a

more perfect union, establish justice, insure domestic tranquility, provide for the common defense, promote the general welfare, and secure the blessings of liberty to ourselves and to our posterity, do ordain and establish this Constitution for the United States of America."

It must be noted that they sought to provide and secure to posterity—the people of today—all the blessings which accompany civil liberty. They hoped to secure for our people domestic tranquility, which is impossible under private railway control. The other purposes are incapable of being realized under private monopoly of transportation. Should our present lawmaking power refuse in this great crisis to provide, in letter as well as in spirit, progressive legislation necessary to carry out the fundamental principles of the Constitution, there is left an appeal to the citizenship which our martyred President, Abraham Lincoln, stated in the following words:

"This country and all its institutions belong to the people who inhabit it, and whenever they shall tire of their existing government they have the constitutional right to amend it, or the revolutionary right to overthrow it."

If, then, this principle that the will of the people should rule has found its advocates among makers of laws and constitutions throughout the centuries when the conditions of society were more simple than now, and when nations have owned and operated their own highways, post offices, etc., is it not much more natural, necessary, and just, that these same principles of public ownership should be extended under the present and more complicated conditions of society, when the various forces of nature are imperatively called upon to render service? Justice replies "Yes."

We are living in an era of evolution and revolution. Democracy must triumph over greed. That "invisible government" of private monopoly which sets at naught the will of the people through the combined power of the railways, telegraph, telephone, gas, electricity, street railways, and other public utilities, must be done away with in the name of liberty.

The Publicly Owned Railroads of Switzerland—How the Rights of the People Were Safeguarded from the Beginning and How Federal Ownership of the Swiss Railways Was Acquired

On the 7th of April, 1851, a special commission of the national council itself made an official recommendation providing for the public ownership and operation of the railways under joint government control (national and state). The national council itself refused to follow the vote of this commission, and in July, 1852, declared in favor of private ownership. The rights of the people, however, were thoroughly safeguarded both in the federal and cantonal law by abundant provisions limiting the rates of charge and profits, and providing that construction and operation should be carried out with honesty, efficiency, and economy, and that the Government at all times should have access to the records and accounts, which were to be kept in a clear and complete manner. The franchises also contemplated, from the very first, the ultimate taking over of the properties by the authorities either cantonal or federal on just terms, whenever the public decided either that the profits of the companies were too great, or that public management would insure them better service; and compelled the companies honestly to advance construction and operation, to give efficient management, and perform the service at just rates; otherwise the nation would at once exercise its rights and acquire the roads for government operation.

The government had by the year 1890 acquired rather a large control by purchase of the majority of stock in some of the most important systems. As the terms for which many of the franchises had been given to the companies would expire in the spring of 1898, the Swiss people invoked the rights which they had long enjoyed through the system of direct legislation, and by an initiatory petition demanded that the council (the members of which were already favorable to this action), should frame a bill providing for the taking over of the most important railway systems and submit this as a referendum to be voted upon at the forthcoming election.

The salient features of this bill were that the government should purchase and take over at the expiration of the franchises, the five important railway systems, approximately 1,700 English miles. The bill thus submitted to the people for their votes included every provision possible for safeguarding the public in-

terests, including the financing, the accounting, justice to employees and users, and with a system of administration founded upon a highly intelligent and practical basis. An administrative council of eleven members was provided who were to keep constantly in touch with the various cantonal governments and give careful attention to the needs of the people.

Why the Swiss Took Over Their Railways Under Public Ownership

In connection with the bill which the national council had drafted at the request of the voters to provide for public ownership of the railroads, the national council issued a message embodying the reasons which compelled it to recommend the passage of the bill. Among these reasons were the following:

1. That the unification of the systems under one head would reduce the expense of operation by doing away with useless duplication.

2. Federal operation of the lines being conducted by a single administration could provide for a better trained administrative body than a large number of private companies.

3. Since Prussia, Austria, and other states were enjoying the earnings from their publicly owned railroads which would soon place them out of debt, the Swiss railroads if privately owned could not compete with them in rates, and thus higher charges must be paid by the Swiss people.

4. The federal council also made it clear in this interesting message that continued private ownership was a menace to the political life of Switzerland, because the profits accruing from the roads left the country in the form of dividends to foreigners rather than contributing to the extension and improvement of their own railways.

5. Higher wages, reasonable hours, and better living conditions would be enjoyed by the railway employees under government ownership. Upon this subject the message also says: "Private companies, as a rule, pay high salaries for the performance of certain functions, and to make up for these expenditures they economize upon wages of common employees, who, since they are very numerous, occasion the great bulk of expenditures."

Public Ownership Submitted By Referendum to the Popular Vote and Accepted By An Overwhelming Majority

The vote on the proposition for the national acquisition of the railway system was taken on the date fixed by law, February 20, 1898. It called out an unusual number of voters. Out of 734,000 citizens having the right to vote, 570,000, in round numbers, exercised that right. This is the largest proportion of votes ever cast. The purchase law was accepted by a majority of over 200,000, the votes standing 386,634 for, to 182,718 against. The result showed an overwhelming majority in favor of national ownership.

My investigations of the practical working of this national system of railways extending over twenty years, lead to very decided convictions respecting the efficiency of this system in comparison with our own deplorable lack of efficiency. Permit me to give details respecting rates, quality of service, etc.

Swiss "Abonnement" Tickets and Regular Fares and Quality of the Various Classes of Service

The Swiss federal railroad administration issued until after the beginning of the present war, "Abonnement" (special season) tickets, good for unlimited travel on all the federal lines (1,701 miles) and on all the steamers of the Swiss lakes (Geneva, Zurich, Lucern, Neuchatel, etc.):

	1st Class	2nd Class	3rd Class
Two weeks.....	\$13.50	\$9.65	\$6.80
One month.....	21.25	14.50	10.60
Three months....	52.11	36.67	26.05
Six months.....	81.56	56.94	40.53
One year.....	129.31	90.71	64.66

Respecting the quality of service of the various classes: The native Swiss ride almost entirely (except the wealthiest) in the third class. It is clean, sanitary, and comfortable, but lacks upholstery. The second class is used largely by the wealthy Swiss and foreign tourists, including Americans, except the very wealthy, and in some cases those who desire to appear wealthy. It is practically equal to the first class in America. The first class is but very little different from the second, and in many cases

the first and second are precisely the same, the only thing which distinguishes them being the label. Both classes are often in the same car, divided with a partition, but the "poster" showing the class is often changed as circumstances require. I usually used the second class. This ticket gave me the right to travel at pleasure for six weeks, twenty-four hours daily if I desired over these highly expensive roads, for \$28.00, less than seventy cents per day! There were always reputable, intelligent and delightful people to meet, and the atmosphere seemed entirely democratic.

For regular journeys the rates per mile one way were as follows: First class, 3.2 cents; second class, 2 cents; third class, 1.6 cents.-

The three classes averaged 2.3 cents per mile for single journeys, and for round trips about 1.5 cents per mile each way. Fifty-five pounds of hand luggage are allowed to be carried free in the passenger cars.

As has been already mentioned, the Swiss railways, owing to the country being almost entirely mountainous, and abounding with many chasms, requiring bridges at dizzy heights, and construction of countless tunnels being necessary, the actual cost of construction of the road is many times greater per mile than in any other country. Marvelous engineering feats have been accomplished in the construction of these roads, which have never been executed elsewhere in the world. Among these are wonderful "corkscrew" tunnels in which the trains, after crossing a chasm or canyon over a very high bridge, move around within the mountain, in spirals like those of a corkscrew or coiled springs, in order to make grades that will permit their emerging 200 or 500 feet or more at a point directly below or above the entrance, depending on the direction in which they are going. One of the most famous of these is a double corkscrew, shaped like the figure 8. Of the well known tunnels, the St. Gothard is nine miles, and the Simplon (double track), is twelve miles in length, the two costing \$21,000,000. There are over 1,000 tunnels on the Swiss Federal System.

The Higher Cost of the Swiss Railways and the Lower Fare

With the unparalleled difficulties of construction in the Alps, the actual cost of the Swiss railways must have exceeded five times that of the average of the American roads, and had they been promoted and financed under American methods the rates

of fare would naturally be five times as great as they now are. But under the honest building and management that the Swiss law required, the fares for regular trips average practically the same as in America, while the "season" tickets are only a fraction of the charges made in our country.

When the government finally took the roads over, about 1,700 miles, it paid for them approximately \$199,000,000, or \$117,000 per mile on the average, including a large mileage of tunnels and bridges averaging \$1,000,000 per mile.

A suggestive account of the purchase of these lines by the Swiss Government was prepared for the Musee Social of Paris, by its Swiss correspondent, Mr. Horace Micheli, a translation of which may be found in Volume III, No. 6, December, 1898, of the American Economic Association. Attention here is called to the protection the Swiss people enjoyed in taking over their railroads under public ownership through the constitutional and democratic right of "direct legislation," with the "initiative and referendum."

COMPARISON OF SWISS DEMOCRACY WITH AMERICAN RAILWAY AUTOCRACY

*"Division of the New World"—Two Railway Presidents Aptly
Calling Themselves "Cortez" and "Pizarro," Believing They
Had Secured the Control of the American People, Pro-
posed a Division of America Between Them*

In the investigation of the records of the Louisville & Nashville Railroad Co., letters were discovered between Milton H. Smith, president of the L. & N. Road, and Samuel Spencer, president of the Southern Railway, giving vent to their fullness of joy in having (as they thought) obtained control of America, as had Cortez and Pizarro, of the natives, four centuries ago. This aptly illustrates the illimitable ambition of railway financiers. The following from the letters of these two railroad presidents is extracted from pages 369-372 of the evidence and report of the Interstate Commerce Commission covering their investigation of the Louisville & Nashville Railroad system.

"A letter from President Smith, of the Louisville & Nashville Railroad, to President Spencer, of the Southern Railway:

(Personal and confidential)

On Pennsylvania Railroad Train No. 21,

February 22, 1896.

Samuel Spencer, Esq.,

President Southern Railway, 60 Broadway, New York City.

Dear Sir:

Pizarro.—How shall we divide the new world?

Cortez.—I will take North America and you can have all of South America, except——, and neither of us will do anything to the Isthmus without notice to and coöperation of the other.

Pizarro.—While Patagonia is not a very large or important part of the world, yet, perhaps, it is as much as I can tote.

Refer to typewritten report of our interview at Kenesaw, Ga., on October 28, 1894, and to the interviews and correspondence that have taken place since that date, and to that portion of our interview of this morning relating to the future of certain railroads that are or may be tributary or competitive with roads controlled by the L. & N. R. R. and the Southern Ry.

May it not be well to review the subject and perhaps make our understandings more specific?

Your affairs, since our interview in October, 1894, progressed with rapidity, and without, so far as I know, encountering serious difficulties. You have acquired the G. S. & F., the Atlanta & Florida, and the Central Railroad has been reorganized in accordance with your plans. I do not recall now what has been done with the Macon & Northern, nor what has been done with the G. M. & G., Macon & B'ham, and one or two other roads, altho I believe you told me that your intention was to allow the Macon & B'ham to be abandoned. The Paducah, Tenn. & Alabama and Tenn. Midland Rds. have been disposed of as anticipated. The L. & N. will not compete for the control of the B'ham, Sheffield & Tenn. River Rd., provided you will acquire it, should it become necessary to do so to prevent its extension into Birmingham, or will not permit it to get into a position where it may become a disturber. The L. & N. Rd. will not compete for the control of the Mobile & Birmingham with the expectation that you will acquire it.

* * *

I have advised Mr. Belmont of our agreement that neither party will acquire the property of the Marietta & North

Georgia Railroad Co. without the consent of the other. You may, therefore, freely communicate with him upon the subject, and I assume he will do likewise.

Yours truly,

(MILTON H. SMITH), *President.*"

"Letter from Samuel Spencer, president of the Southern Railway, to M. H. Smith, president of the Louisville & Nashville Railroad Co.

New York, February 29, 1896.

Mr. M. H. Smith,

President L. & N. R. R., Louisville, Ky.

Dear Sir: Your letter of the 22d instant.

Pizarro.—Since our last conversation, the division of the New World between us has made some progress.

Cortez.—Yes; you seem to have acquired Patagonia, and I have secured a considerable part of North America which touched my former territory, but it seems to me you have acquired a considerable neck of the Isthmus which is the connecting link between us. Was it understood that connecting links which touched both of us should be a matter of consultation before acting or not?

Pizarro.—* * * I agreed that it is desirable to renew the subject and, if practicable, to make our understanding more specific. The principles on which I think this understanding should be based are:

(1) That neither the L. & N. nor the Southern shall acquire lines in the territory of the other, and that lines connecting with or touching one and not the other shall be regarded as in the territory of the one which they connect or touch.

(2) That neither will acquire lines allied by former ownership, lease, or otherwise, to the other, and which at the moment are not controlled by reason of pending reorganizations or other cause.

(3) That neither will acquire lines which connect with or touch both, either directly or thru subordinate or controlled lines without previous consultation and, if possible, agreement.

(4) That neither will foster the construction of new lines or the completion of unfinished ones into the territory of the other, but when questions with reference to such lines arise, we shall proceed by agreement with each other, if possible.

Will you please consider this and say if such a declaration of principles is satisfactory?

* * *

Yours very truly,
S. SPENCER, *President.*"

The above correspondence disclosing the policy and purpose of our railway executives absolutely to control America is so clearly expressed as to need no comment.

American Railway Exploitation Under Private Ownership

The promotion, financing, and administration of American railroads marks a dark but impressive and instructive chapter in our country's history. It is a record of a nation's shame, which can only be fully atoned for when the American people shall have supplanted the "invisible government" of private financial autocracy with real and living democracy, by owning and operating for the common welfare all those natural functions of government necessary for the common good. Then only will America enter into her destiny and enjoy the fruition of the labors and hopes of its people. Further experimentation with regulation under the false notions of the necessity of private control, competition, initiative, etc., must be stopped in the interest of the public welfare.

It is an unpleasant task to bring before the public view the manner in which government, the press, and politics have been corrupted, and the rights of citizens, both political and economic, imperiled or destroyed; yet it is due to the American people that they know the truth, and thus be able to select and apply remedies that shall be safe and sufficient for all time, to protect and advance justice and democracy.

As our country now faces the problem as to who shall own and operate the railways in the future—private interests for private profit, or American citizens for the common good—whether the railways shall control the people or the people control the railways—and since the determination of this question by Congress will be largely based on the manner in which these public agencies have been recently administered, it is important that the history of private operation during the past 20 years be known.

While facts of recent occurrence will be most largely considered; yet it is also important to view the foundations laid many years ago on which modern railroad financing and administration have been built.

Promotion of Pacific Railways

About 1850 the government decided to make extensive surveys for a railway system to be built to the Pacific coast. After these surveys had been made at the expense of the nation, a private corporation known as the "Credit Mobilier" was formed for the purpose of privately controlling the vast system of railway transportation planned by the government. The giving over of these rights to this corporation marks the first widely known chapter in the dark history of American promotion and financing of railways. The history of this event is recorded in two congressional reports of investigations covering more than 1,300 pages. The first known as "The Poland Report" (report No. 77 of Select Committee of House of Representatives to investigate alleged "Credit Mobilier," Feb. 18, 1873, 42d Cong. 2d Sess.); and the "Wilson" report, No. 78 of "Select Committee of House of Representatives to make inquiry of the affairs of the Union Pacific Railroad Co., the Credit Mobilier of America, etc."

These disclose most important facts relating to the reckless manner in which members of Congress were bribed or influenced by promise of profit to turn over the building and ownership of these lines to a private corporation. The investigation showed that one prominent Congressman who afterwards became President of United States and two others who were nominated for the Vice Presidency were implicated in the transactions, as well as others. Time and space do not permit the recital of details, and it may be sufficient for the present to quote briefly from the conclusions reached by the investigating committees mentioned. I quote from the "Poland" report:

"But such is the tendency of the times, and the belief is far too general, that all men can be ruled by money, and that the use of such means to carry public measures is legitimate and proper. In a free government like ours we cannot expect the people will long respect the laws if they lose respect for the lawmakers."

The building of the Pacific railroads has passed into history, leaving its dark blot on our national escutcheon, only to be effaced as time rolls on, bringing with it forgetfulness. The later period, though not so notably corrupt in its flagrant and open bribery of government officials, has been equally wicked from the standpoint of its effect upon the economic welfare of our

people. One of the outstanding examples of this period is the work of the late E. H. Harriman, who starting as a small broker, by the manipulation of money and securities, without building any roads or doing any other constructive service to mankind, amassed a fortune estimated at about \$250,000,000.

Such is a brief review of railway promotion in the earlier days. We will now rapidly survey the methods used in more recent times by some of the chief bankers and railway financiers of America whose influence now extends over the entire world in controlling money, credit, and monopolies in all lines of manufacturing and commerce, as well as railroads in the United States.

Recent Refined Methods of Railway Financing and Administration—History of a Nation's Shame

During the years from 1912 to 1915 various complaints were made by shippers and the public to Congress and the Interstate Commerce Commission respecting certain illegal practices of five important systems of railways and their resulting inefficiency of service and unjust rates. Accordingly the Interstate Commerce Commission, partly on its own initiative and partly in compliance with resolutions of Congress, made investigations, and issued their official reports of findings, in the years 1913 to 1917, respecting the unlawful practices and financial transactions of five railway systems comprising approximately one-third of the country's entire mileage. The systems investigated by the Interstate Commerce Commission and reviewed herein, are:

The New York, New Haven & Hartford Railroad Co., report No. 6569; date July 11, 1914.

The Louisville & Nashville Railroad Co., report No. 4788; date February 9, 1915.

The Chicago, Rock Island & Pacific Railroad Co., report No. 6384; date July 31, 1915.

The St. Louis & San Francisco Railroad, report No. 5933, January 20, 1914.

The Cincinnati, Hamilton & Dayton Railroad Co., and the Pere Marquette Railroad Co., report No. 6833; date March 13, 1917.

These investigations were made with the most painstaking care possible, covering long periods of time, in which special agents of the commission were employed to secure information and to investigate the books and accounts. Officers of the com-

panies were summoned before the commission and several thousand pages of testimony were taken. The findings of the commission were published in their official reports mentioned, and disclose, among others, the following facts:

The evidence secured by the commission shows that *every railroad company investigated knowingly falsified its accounts*, partly in order to hide expenditures of large sums for controlling politics and elections and influencing legislation and the administration of laws; falsified the accounts respecting capital, expenses, and profits, so that the commission, in many instances, was unable to find for what purpose vast sums were expended; and in many cases the books and accounts were burned by the directors in order to hide, in so far as possible, various illegal transactions. Many of these acts were done, as the records conclusively show, by directors who are well known as among the world's most powerful financiers; yet even though many records were willfully destroyed, the commission was able to secure sufficient evidence in many cases to disclose the names, dates and facts.

In order to place these various illegal practices in systematic order before you and our people, to demonstrate the unregulatable character of this private control of a natural monopoly, and to refer readily to official evidence and the findings of the commission, they may be briefly classified as follows:

1. Extravagant speculations and purchases of worthless securities in the interests of the directors; peculations from the stockholders' money by illegal devices, accompanied by the falsifying of books and accounts and their later burning by the directors.

2. Illegally spending the stockholders' money and property to corruptly influence politics, the press, and public opinion, and to secure secrecy respecting their acts.

3. Acts to secure a monopoly against the public interest by the violation of the laws of many States as well as of the nation.

4. The organization by the railway directors of "fake" corporations, with "dummy" officers to hide the identity of real promoters, and shield them from prosecution.

5. The voting to themselves by the directors of extravagant salaries, in addition to which large sums were taken by some of these officials without warrant of law.

As the corrupt practices, falsifying of records, etc., are com-

mon to all the railroads investigated, the New Haven system investigation will suffice for all. All the extracts from the commission's report are taken verbatim from the records.

No. 6569.—In re Financial Transactions of the New York, New Haven & Hartford Railroad Co.—July 11, 1914.

"REPORT OF THE COMMISSION TO THE SENATE OF THE UNITED STATES

"By the Commission :

"The Commission has the honor to submit the following report in compliance with the resolution of the Senate dated February 7, 1914:

"Scope of the Investigation

"Public hearings were held extending over a period of 60 days of almost continuous session. Witnesses in a position to have knowledge of the transactions under scrutiny were examined. In the search for truth the Commission had to overcome many obstacles, such as the burning of books, letters, and documents and the obstinacy of witnesses who declined to testify until criminal proceedings were begun for their refusal to answer questions. The New Haven system has more than 300 subsidiary corporations in a web of entangling alliances with each other, many of which are seemingly planned, created, and manipulated by lawyers expressly retained for the purpose of concealment or deception.

"The result of our research into the financial workings of the former management of the New Haven system has been to disclose one of the most glaring instances of maladministration revealed in all the history of American railroading. In the course of the investigation many instances were uncovered of violation of the laws of different States. As pointing to violations of State laws, we have turned over the evidence concerning local occurrences in New York City to the district attorney for the proper district, and the testimony relating to irregularities in Massachusetts and Rhode Island have been laid before the proper authorities of those States. The Commission has also furnished the Department of Justice with a complete record of the testimony.

"The difficulties under which this railroad system has labored in the past are internal and wholly due to its own mismanage-

ment. Its troubles have not arisen because of regulation by governmental authority. Its greatest losses and most costly blunders were made in attempting to circumvent governmental regulation and to extend its domination beyond the limits fixed by law.

“The subject matter of this inquiry relates to the financial operation of a railroad system which, on June 30, 1903, had a total capitalization of approximately \$93,000,000, of which \$79,000,000 was stock and \$14,000,000 bonds. In the 10 years from June 30, 1903, this capitalization was increased from \$93,000,000 to \$417,000,000, exclusive of stock premiums, or an increase of \$324,000,000. Of this increase approximately \$120,000,000 was devoted to its railroad property and was expended for betterments and equipment. This leaves the sum of \$204,000,000, which was expended for operations outside of its railroad sphere. Through the expenditure of this sum this railroad system has practically monopolized the freight and passenger business in five of the States of the Union. It has acquired a monopoly of competing steamship lines and trolley systems in the section which it serves. The financial operations necessary for these acquisitions, and the losses which they have entailed, have been skillfully concealed by the juggling of money and securities from one subsidiary corporation to another.

“Significant Incidents

“Marked features and significant incidents in the loose, extravagant, and improvident administration of the finances of the New Haven as shown in this investigation are the Boston & Maine despoilment; the iniquity of the Westchester acquisition; the double price paid for the Rhode Island trolleys; the recklessness in the purchase of Connecticut and Massachusetts trolleys at prices exorbitantly in excess of their market value; the unwarranted expenditure of large amounts in ‘educating public opinion’; the disposition, without knowledge of the directors, of hundreds of thousands of dollars for influencing public sentiment; the habitual payment of unitemized vouchers without any clear specification of details; the confusing interrelation of the principal company and its subsidiaries and consequent compilation of accounts; the practice of financial legerdemain in issuing large blocks of New

Haven stock for notes of the New England Navigation Co., and manipulating these securities back and forth; fictitious sales of New Haven stock to friendly parties with the design of boosting the stock and unloading on the public at the higher 'market price'; the unlawful diversion of corporate funds to political organizations; the scattering of retainers to attorneys of five States, who rendered no itemized bills for services and who conducted no litigation to which the railroad was a party; extensive use of a paid lobby in matters as to which the directors claim to have no information; the attempt to conceal utterances of the press by subsidizing reporters; payment of money and the profligate issue of free passes to legislators and their friends; the investment of \$400,000 in securities of a New England newspaper; the regular employment of political bosses in Rhode Island and other States, not for the purpose of having them perform any service but to prevent them, as Mr. Mellen expressed it, from 'becoming active on the other side'; the retention by John L. Billard of more than \$2,700,000 in a transaction in which he represented the New Haven and into which he invested not a dollar; the inability of Oakleigh Thorne to account for \$1,032,000 of the funds of the New Haven intrusted to him in carrying out the Westchester proposition; the story of Mr. Mellen as to the distribution of \$1,200,000 for the corrupt purposes in bringing about amendments of the Westchester and Port Chester franchises; the domination of all the affairs of this railroad by Mr. Morgan and Mr. Mellen and the absolute subordination of other members of the board of directors to the will of these two; the unwarranted increase of the New Haven liabilities from \$93,000,000 in 1903 to \$417,000,000 in 1913; the increase in floating notes from nothing in 1903 to approximately \$40,000,000 in 1913; the indefensible standard of business ethics and the absence of financial acumen displayed by eminent financiers in directing the destinies of this railroad in its attempt to establish a monopoly of the transportation of New England. A combination of all these has resulted in the present deplorable situation in which the affairs of this railway are involved."

Pages 35 to 41 of the report give a history of the celebrated transaction in which 18 miles of railroad in which Directors J. P. Morgan, Sr., William Rockefeller, and some promoters who

were their friends, were interested, was unloaded by them on the railroad company at a meeting kept secret from the rest of the board of directors, at which meeting President Mellen presided. This property proved to be more than worthless to the stockholders, having been operated at an annual loss of over \$1,000,000 annually, and for which their directors forced them to pay the vast sum of \$36,434,173.25.

The principal accounts respecting this transaction were kept in the office of J. P. Morgan & Co., in such a manner as to hide the purposes for which moneys were received or expended, under the title of "Special Account No. 2." Part of the accounts were kept by another banker interested in the transaction named Oakleigh Thorne, respecting whom the commission report says:

"It appeared during the progress of this investigation that the personal records of Thorne which might have shown all the details of these disbursements had been burned by him in January, 1912."

This transaction is all the more sensational since Mr. Mellen, "president" of the road, was not permitted by the directors who robbed it to the extent of millions of dollars, to know who got the money, or, as he personally wrote in the records, when smarting from the rebuffs of Mr. Morgan: "It seems that as president of the road, I should be entitled to know who got the money for the truck turned over. C. S. M."

The New York, Westchester & Boston Railway Co.

The following is from the report:

"The enormous sum of \$36,434,173.25 was expended for a road only 18.03 miles in extent, which is being operated at an annual loss of approximately \$1,250,000, and which will have to increase its earnings four and one-half fold before it can pay its operating expenses and fixed charges. It is inconceivable that this enterprise could have been entered into by the New Haven as a result of the mandates of good judgment and proper railroading.

"The Westchester acquisition was planned and executed by a special committee of the board, consisting of directors Morgan, Rockefeller, and Miller, with President Mellen as chairman. The vote appointing this committee 'on proposed competition between the Connecticut State line and Harlem River, with power,' does not disclose an intention to authorize the

buying of charters and promotion securities and the building of a new railroad, much less one at a cost of \$36,000,000. It is ambiguous and was evidently intended to conceal a secret purpose. The full board was not taken into the confidence of those directors who wanted these securities purchased, and no report was ever made by this committee placing the situation as they found it before the board.

* * *

"The report of this committee, however, was unanimously 'approved, ratified and confirmed' at the meeting of the board of November 8, 1907, at which the following directors were present: Mellen, Rockefeller, Morgan, Milner, Thayer, Brooker, Brush, Warner, Cheney, Miller, Skinner, Barney, Taft, Whittemore, Elton, Hemingway, Robertson, Robbins, and Parker.

"After this meeting of the board at which this undetailed report was ratified, Mr. Mellen went to see Mr. Morgan, and requested more information as to the expenditure of the amounts. According to Mr. Mellen's evidence, Mr. Morgan asked him if he knew who wrote the report, and upon Mr. Mellen's reply, 'Yes; Mr. Stetson wrote it,' Mr. Morgan asked him, 'Do you think you know more than Mr. Stetson?' Mr. Mellen admitted he did not, and apparently acquiesced, but took the precaution to write upon the back of his report, while still smarting under the humiliation of the interview with Mr. Morgan, the following words:

" 'The trouble with this is there is nothing to show who got the money for the truck turned over. I don't like the looks of it, but I don't see why the matter should not be made plain. If I had the stock and sold it, I should expect others would state they bought it of me; but that don't seem to have been the disposition here. I never have known the first thing about who originally held the securities, what they were sold for; and no one thought that I was entitled to know. Perhaps I am not. I would feel better if there were at least a disposition to let me know something more than appears in the record.

" '(Signed) C. S. M.' "

Dummy Companies Formed to Hide the Identity of Railroad Officials as to Their Complicity in Illegal Acts and Frauds on the Stockholders

The following is from pages 45, 60 and 61 of the official report :

"Dummy Companies"

"The frequency with which dummy corporations and dummy directors appear in this record leads to the conclusion that some one high in the counsels of the New Haven had an obsession upon the subject of the utility of such sham methods. The directors of the Billard Company confessed that they were dummies and knew nothing of its operations. Why men of respectability and standing as these appear to be should lend their names as dummies passes comprehension.

"In the organization of one of the steamship companies *the young lady stenographer was made president; and a youth of 21 years of age by the name of Grover Cleveland Richards was selected as treasurer of another company.*

"Clerks and irresponsible persons were drawn upon to supply the demand for dummies in the financial joy rides by the management of the New Haven.

"Mellen's stock in the New England Investment & Securities Co. was held by James B. Brady, who testified that he was merely a dummy for Mr. Mellen. Director Skinner's stock in this same company was held by a relative and a bookkeeper in his office. Thus, throughout the entire story of deception, the New Haven management vainly endeavored to hide the true facts behind these dummy individuals and dummy corporations.

"As a matter of law, such devices are feeble and puerile, but if the master financiers behind these New Haven transactions could use these sham methods and thus give their indorsement to the availability of such crooked schemes to cover the true substance and fact of financial transactions it indicates a low state of financial morality. No condemnation can be too severe to apply to the frequent use of these companies by the New Haven."

The methods used by this railroad company, the evils resulting therefrom, are summarized by the Interstate Commerce Commission in their report from which the following quotations are made :

"Evil of Interlocking Directorates"

"A system of interlocking directorates has grown up and flourished in the past few years which has brought about combinations and intercorporate relationships not conducive to the public welfare. On the New Haven board of directors there was a representative of the Pennsylvania Railroad, which railroad owned 35,000 shares of New Haven stock; there was a representative of the New York Central, which owned 35,000 shares; there was a representative of insurance interests that owned 35,000 shares, and a representative of an express company that had a contract with the railroad; there were directors who were also directors of the Standard Oil Company, the United Steel Corporation, the Pullman Company; in fact, every other interest seemed better represented on the New Haven board than the average stockholder's interest.

"There are too many ornamental directors and too many who have such childlike faith in the man at the head that they are ready to indorse or approve anything he may do.

"The handling of bank deposits and security sales of these corporations are massed in a few hands, carrying with them a power and domination over large amounts of banking capital as well as the control of great railroad systems. These and other evils as the result of interlocking directorates are now well recognized and known, and they have been emphasized by the disclosures of this investigation.

New Haven Monopoly Corrupt

"This investigation has demonstrated that the monopoly theory of those controlling the New Haven was unsound and mischievous in its effects. To achieve such monopoly meant the reckless and scandalous expenditure of money; it meant the attempt to control public opinion; corruption of government; the attempt to pervert the political and economical instincts of the people in insolent defiance of law. Through exposure of the methods of this monopoly the invisible government which has gone far in its effort to dominate New England has been made visible. It has been clearly proven how public opinion was distorted; how officials who were needed and who could be bought were bought; how newspapers that could be subsidized were subsidized; how a college professor and publicists secretly accepted money from the New Haven while masking as a representative of a great Ameri-

can university and as the guardians of the interests of the people; how agencies of information to the public were prostituted wherever they could be prostituted in order to carry out a scheme of private transportation monopoly imperial in its scope.

Directors Criminally Negligent

"It is inconceivable that these wrongs could have gone on without interference if the members of the board of directors had been true to the faith they owed the stockholders. A number of directors appear in many instances to have voted without knowledge and to have approved the expenditure of many millions without information. According to the testimony of some of the directors they merely approved what had been done by some committee or by some officer of the company. The directors' minutes reveal that it was largely a body for ratification and not authorization, as the law intended a board of directors should be. None of the directors would have been so careless in the handling of his own money as the evidence demonstrated they were in dealing with the money of other people. The directors actively or passively acquiesced in the efforts of the Mellen-Morgan-Rockefeller régime to extend the domination of this corporation over the whole transportation field in New England.

"If these directors who were faithless to their stewardship were held responsible in the courts and at the bar of public opinion for the failure to do those things they should have done, the lesson to directors who do not direct would be very salutary.

"Directors should be made individually liable to civil and criminal laws for the manner in which they discharge their trust. A corporation can be no better or worse than those who operate it. It should be just as grave a crime to plunder stockholders or the public through a railroad corporation as it is to personally rob an individual.

Subsidiary Corporation Condemned

"It was found in the investigation of the New Haven system that there were 336 subsidiary corporations, and the books of the New Haven road proper reflect only a small part of the actual financial transactions of the railroad. Many of these subsidiary corporations served no purpose save an evil one. They were used to cover up transactions that would not bear scrutiny, and to keep from the eyes of public officials matters that were sought to be

kept secret. The commission should have the power to examine, not only the books, records, papers and correspondence of interstate carriers, but of subsidiary companies as well.

Remedy in Public Conscience and Laws

"The insuring of honesty throughout the management of the great railroads of the country is a most important question before the people today, and only when through exposure of wrongdoing and an awakened public conscience, coupled with effective laws, this result is produced, may railroading be placed upon the high level that it should occupy. The revelations in this record make it essential for the welfare of the nation that the reckless and profligate financiering which has blighted this railroad system be ended, and until this is fully done there will be no assurance that the story of the New Haven will not be told again with the stockholders of some other railroad system as the victims."

Government ownership of our railways is desirable; it is practicable; and it is the only democratic and just solution of the railway problem, the great emergency of American reconstruction.

Please allow me in closing to quote from the statement I submitted last February before the Senate Committee on Interstate Commerce:

"If the ideals which we are seeking prevail, service, not profit—democracy, not autocracy, will rule. What we sow today we shall reap tomorrow. We look forward to the time, which we hope may be in the near future, when through the patriotism of our citizens and the continuing heroism of our soldiers, the victory which has come to our arms will here at home consummate an industrial peace that shall be wise and just to all, as one of the first fruits of the great sacrifice America has made in this world struggle. Among the fruits of such peace, those who believe in equality of opportunity, civil liberty and democracy, hold as highly essential the public ownership and operation of our railroads, our public utilities, and our natural resources, for in this way alone can control be 'of the people, by the people, and for the people.'"

PUBLIC OWNERSHIP LEAGUE OF AMERICA

For the Public Ownership, Efficient Management and Democratic Control of Public Utilities and Natural Resources.

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THE PUBLIC OWNERSHIP LEAGUE OF AMERICA is a non-partisan, educational organization for the advancement of the public ownership and democratic control of public utilities and natural resources. Its work is to collect, classify and disseminate information on public ownership; conduct an Information Service; assist individuals, organizations, and cities in a strictly non-partisan way in public ownership campaigns.

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